Job Training Partnership Division

JTPA

Number: D96-15

Serving the People of California

DIRECTIVE

Date: December 20, 1996

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TO: SERVICE DELIVERY AREA ADMINISTRATORS
PRIVATE INDUSTRY COUNCIL CHAIRPERSONS
JTPD PROGRAM OPERATORS
EDD JOB SERVICE OFFICE MANAGERS
JTPD STAFF

SUBJECT: TITLE III COST LIMITATIONS

**EXECUTIVE SUMMARY:**

**Purpose:**

This Directive provides guidance to Service Delivery Areas (SDA) to help ensure compliance with the cost limitation and liability requirements of the Job Training Partnership Act (JTPA) for Title III funds.

**Scope:**

This Directive amends JTPA Interim Directive 94-11 and applies to Title III funds allocated, distributed or awarded to SDAs for Program Year (PY) 1994-95 only. Funds allocated for Title III for years of allocation prior to PY 1994-95 are covered under JTPA Interim Directive 94-11 and JTPA Directive 91-4. Closeout reports for PY 1994-95 funds were due on August 30, 1996. Based on these closeout reports, cost compliance calculations for PY 1994-95 funds (using the more flexible approach adopted by this Directive) will be completed by December 31, 1996.

Note: The only significant change between this Directive and JTPA Directive 94-11 is as a result of the Department of Labor (DOL) dismissing the concept of maximum "allowable" expenditures. The allowable expenditures were limited to twice the actual retraining expenditures. This process often caused after-the-fact overexpenditures in other cost categories. The DOL dismissed this concept in favor of the one presented in this Directive.

**Effective Date:**

This Directive is effective upon release.

## REFERENCES:

- JTPA Public Law 97-300, as amended, November 1992
- DOL, Employment and Training Administration, 20 CFR, Part 626, et al., Final Rule
- DOL, Financial Management Technical Assistance Guide, amended January 1995

## STATE-IMPOSED REQUIREMENTS:

This document contains State-imposed requirements that are printed in ***bold italic*** type.

## FILING INSTRUCTIONS:

This Directive is effective upon release.

## BACKGROUND:

The JTPA amendments changed the calculation of the Title III maximum and minimum cost compliance requirements from one based on annual (program year) expenditures to one based on allocations for a given program year. Final cost compliance, therefore, cannot be measured until the allocation is fully expended or until the end of the <u>funding period</u>. Of the total Title III funds allocated, distributed or awarded to an SDA for a program year of allocation, <u>not less</u> than 50 percent shall be expended for retraining services as specified under Section 314(d) of the JTPA, unless a waiver of this requirement is granted by the Governor (to the extent allowed in the JTPA). Not more than 15 percent may be expended to cover administrative costs, and not more than 25 percent for needs related payment and support services (NRP/SS) costs. None of these limitations are applicable to State or local rapid response activities per Section 314(b). In addition, funds awarded under Section 302(c)(1)(b) for statewide, regional or industry specific projects are not subject to the 50 percent minimum retraining requirement.

## POLICY AND PROCEDURES:

The above minimum and maximum cost limitations are applicable to Title III funds including:

1. the 50 percent funds allocated by formula under the JTPA, Section 302(d);
2. the 10 percent funds distributed according to need under JTPA, Section 302 (c)(2);
3. the 40 percent funds awarded under provisions of the JTPA, Section 302(c)(1)(E) with the exception of rapid response funds and (for retraining) statewide, regional and industry specific projects.

Funds awarded to SDAs under JTPA Section 302(c)(1)(B) for statewide, regional, or industry-wide projects, have a maximum limitation of 15 percent for administrative costs. These funds remain within the governor's reserve category and are not subject to the retraining cost limitation.

Expenditures must be tracked and reported by cost category, by fund source and by "program year of allocation." This latter term includes all funds allocated, distributed and awarded for a specific program year. The term "allocated" is defined in the JTPA, Section 315 to mean "allocated for a program year, as adjusted for reallocation between substate areas, and for reallotment in accordance with JTPA Section 303." ***Pursuant to Section 315, funds deobligated before the expiration of the funding period, will reduce the allocation amount for cost compliance purposes. As required by the State's fund utilization policy, funds not expended by the end of the two-year funding period will be returned to the State.*** Cost limitation calculations, in this case, will be calculated on the balance of the (reduced) allocation after deobligation pursuant to JTPA Section 315(e). This procedure is consistent with requirements found in JTPA Section 303(d) which requires the State to publish uniform procedures to prevent the State from potential recapture.

Cost compliance analyses are first applied to each Title III fund source (50, 10 or 40 percent) separately (since the 50 and 40 percent funds may have different retraining minimums) and then measured for compliance on the aggregated amount of the combined Title III funds for the program year of allocation. Funds disallowed for non-compliance with cost compliance provisions will not reduce the allocation amount.

## A. Compliance with Cost Limitations

### Cost Limitation Expressed in Maximums

The Title III funds have a maximum limitation of 15 percent for administrative costs, and a maximum limitation of 25 percent for needs related payments and supportive services costs. Whenever a maximum cost limit is exceeded, a violation of the JTPA has occurred, and the only appropriate sanction is the disallowance of the amount expended in excess of the limitation.

**Illustration:** An SDA has a Title III allocation of $1,000,000 with an administrative cost limitation of 15 percent or $150,000 and actual administrative expenditures of $180,000. This is a violation of the JTPA. The sanction is the disallowance of the $30,000 excess expenditures in the administrative cost category.

### Cost Limitation Expressed in Minimums

The JTPA also requires that a minimum of 50 percent of the SDA's Title III allocation must be spent on retraining services, unless the Governor has approved a waiver to lower this minimum (to no less than 30 percent). Since retraining expenditures must be at least 50 percent (unless waived), the converse is true that no more than 50 percent of the allocation may be spent on the other cost categories (administration, needs related payments, support services and basic readjustment services [BRS]). When the combined expenditures for administration, needs related payment, support services and basic readjustment services exceed 50 percent of the allocation, a violation of the JTPA has occurred since it is no longer possible to meet the requirement that a minimum of 50 percent of the allocation be spent on retraining. The appropriate sanction is to disallow the amount by which combined expenditures for administration, needs related payment, support services and basic readjustment services exceed 50 percent of the allocation. The overexpenditure may fall in any or all of the other categories. If the SDA is within the 15 percent administration limit and the 25 percent needs related payment and support services limit, then the entire overexpenditure would fall in the basic readjustment services cost category.

**Illustration:** The SDA's Title III allocation is $1,000,000 and the retraining limitation has not been reduced. Expenditures are $150,000 in administration, $250,000 in NRP/SS, $125,000 in BRS (totaling $525,000) and $475,000 in retraining. The combined amount of expenditures in administration, NRP/SS and BRS exceeds the limitation by $25,000, which is disallowed because that overexpenditure causes noncompliance with the 50 percent retraining requirement.

In the above illustration, the allocation was fully expended. No funds were available to increase retraining expenditures up to the 50 percent minimum. Therefore, the sanction is to disallow the excess costs that were spent in conjunction for administration, needs related payments, support services and basic readjustment services.

<u>Effect of Unexpended Funds on Cost Limitation Compliance</u>

***If an SDA has not fully expended the funds by the end of the second year of the funding period, an amount equal to the unexpended balance is returned to the State. The deobligation of the unexpended funds will have the effect of reducing the SDA's allocation for that program year's funds. This, in turn, reduces the basis for determining the SDA's compliance with the cost limitations.***

**Illustration:** The SDA's Title III allocation for the PY is $1,000,000. At the end of the second year of the funding period, the SDA has expended $950,000, of which $150,000 is for administration, $505,000 (50.2 percent) for Retraining, $245,000 for needs related payment and support services, and $50,000 for basic readjustment services. The unexpended balance of $50,000 is deobligated. Based on the revised allocation of $950,000, the SDA has exceeded the 15 percent administration limitation by $7,500 and the 25 percent limit for needs related payment and support services by $76,500. These amounts are subject to disallowance.

**B. Cost Compliance Oversight**

Although the final maximum and minimum cost compliance requirements cannot be calculated until the end of the funding period (or at complete expenditure of an allocation), the Job Training Partnership Division's (JTPD) SDA Support Section will conduct desk reviews and inform the SDA of potential problems. This process does not absolve the SDA of responsibility to ensure that its expenditures are in compliance with the minimum and maximum cost limitations. If it appears that the SDA may have a problem in meeting the expenditure requirements before the end of the funding period, a corrective action plan will be required. Although cost compliance is normally conducted after closeout, a compliance issue will occur if an SDA should expend funds on administration in excess of 15 percent of its allocation. In this case, the issue will be referred to the Compliance Resolution Unit for resolution of the issues. See JTPA Interim Directive 95-07 for procedures relative to debt collection and resolution activities.

**ACTION:**

The SDA is solely responsible for ensuring its compliance with the cost limitations in the JTPA and Final Rule. The SDAs need to establish systems for accurate tracking and reporting of expenditures by cost categories and by the year of allocation.

**INQUIRIES:**

Any questions regarding this Directive should be directed to John Ives, Data Analysis Unit Manager, at (916) 654-8281 or your program manager.

/S/ VICKI J. JOHNSRUD
Acting Chief